

**STEPHENSON AREA PUBLIC SCHOOLS**

**Annual Financial Report**

**June 30, 2006**

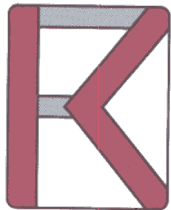
# STEPHENSON AREA PUBLIC SCHOOLS

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# KERBER, ROSE & ASSOCIATES, S.C.

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Stephenson Area Public Schools  
Stephenson, Michigan

We have audited the accompanying basic financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Stephenson Area Public Schools, Stephenson, Michigan (District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10, and the budgetary comparison information pages 30 and 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the District's basic financial statements. The detailed budgetary comparison schedule and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedule and the combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Kerber, Rose & Associates, S.C.".

**KERBER, ROSE & ASSOCIATES, S.C.**

**Certified Public Accountants**

July 29, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **STEPHENSON AREA PUBLIC SCHOOLS**

### **Management's Discussion and Analysis**

**For the Year Ended June 30, 2006**

#### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the district-wide financial statements.

#### Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant fund types including special revenue funds and debt service funds.

Special revenue funds are comprised of: Food Service and Athletics. Debt service funds are comprised of: Sports Complex, 2003 Refunding Debt and the Durant Debt.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

#### District Wide Financial Statements

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long term, whether they are "currently available" or not. For example, assets that are restricted for use in the debt funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the statement of net assets of the district-wide financial statements.

#### The District as Trustee – Reporting the School District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# STEPHENSON AREA PUBLIC SCHOOLS

## Management's Discussion and Analysis

For the Year Ended June 30, 2006

### Summary of net assets:

The following summarizes the net assets for the fiscal years ended June 30, 2006 and 2005.

	<u>Governmental Activities</u>	
	<u>06/30/2006</u>	<u>06/30/2005</u>
<u>ASSETS</u>		
Current	\$ 1,379,821	\$ 2,054,491
Capital assets – Net of accumulated Depreciation	3,391,413	3,639,983
Other assets	<u>39,590</u>	<u>49,857</u>
TOTAL ASSETS	<u>\$ 4,810,824</u>	<u>\$ 5,744,331</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 1,131,196	\$ 1,133,079
Non-current liabilities	<u>2,502,055</u>	<u>2,636,112</u>
TOTAL LIABILITIES	<u>3,633,251</u>	<u>3,769,191</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	943,056	884,983
Restricted for debt service	73,445	71,589
Unrestricted	<u>161,072</u>	<u>1,018,568</u>
TOTAL NET ASSETS	<u>1,177,573</u>	<u>1,975,140</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,810,824</u>	<u>\$ 5,744,331</u>

### Analysis of Financial Position:

During fiscal year ended June 30, 2006, the District's net assets decreased by \$797,567. A few of the significant factors affecting net assets during the year are discussed below:

#### A. General Fund Operations

The District's expenditures from General Fund operations exceeded revenues by \$597,028 for the fiscal year ended June 30, 2006. The prior year general fund operating expenditures exceeded revenues by \$453,558. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

# STEPHENSON AREA PUBLIC SCHOOLS

## Management's Discussion and Analysis

For the Year Ended June 30, 2006

### B. Debt and Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>6/30/05</u>	Payments on Debt <u>        </u>	Principal Balance <u>6/30/06</u>
2000 bonds	\$1,415,000	\$ 45,000	\$1,370,000
2003 bonds	1,340,000	305,000	1,035,000
Durant bonds	<u>46,911</u>	<u>3,554</u>	<u>43,357</u>
Total long-term Bond obligation	<u>\$2,801,911</u>	<u>\$353,554</u>	<u>\$2,448,357</u>

### C. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$248,571. during the fiscal year. This can be summarized as follows:

	Balance <u>6/30/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/06</u>
Capital assets	\$10,053,859	\$ 86,497	\$ (30,000)	\$10,110,356
Less: accumulated depreciation	<u>(6,413,876)</u>	<u>(306,748)</u>	<u>1,680</u>	<u>(6,718,943)</u>
Net investment in capital assets	<u>\$ 3,639,983</u>	<u>\$(220,251)</u>	<u>\$( 28,320)</u>	<u>\$ 3,391,413</u>

In order to maintain net assets at their June 30, 2005 book value, the District would have needed to invest an additional \$248,571 in capital outlay during the year, i.e., the District's assets are depreciating faster than the District is investing in new or replacement assets.

### Results of Operations:

For the fiscal year ended June 30, 2006 and June 30, 2005, the district wide results of operations are as follows:

	<u>6/30/06</u>	<u>6/30/05</u>
Revenue:		
General revenue:		
Property taxes levied for general operations	\$ 1,090,859	\$1,019,476
Property taxes levied for debt service	458,847	349,697
State of Michigan unrestricted foundation aid	4,681,577	4,761,217
Sale of Asset	14,438	55,785
Loss on sale of asset	(28,320)	-
Other general revenue	<u>42,740</u>	<u>22,606</u>
Total general revenue	<u>6,260,141</u>	<u>6,208,781</u>



## STEPHENSON AREA PUBLIC SCHOOLS

### Management's Discussion and Analysis

For the Year Ended June 30, 2006

#### Revenue (continued):

##### General revenue (continued):

##### Operating grants:

Federal	501,846	489,185
State of Michigan	478,248	486,938
Contributions	<u>3,920</u>	<u>-</u>
Total operating grants	<u>984,014</u>	<u>976,123</u>

##### Charges for services:

Food Services	147,496	127,005
Other charges for services	<u>61,855</u>	<u>71,160</u>
Total charges for services	<u>209,351</u>	<u>198,165</u>

Total Revenue	<u>7,453,506</u>	<u>7,383,069</u>
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#### Expenses:

Instruction	\$ 4,776,734	\$ 4,338,708
Support services	2,591,574	2,526,877
Food services	316,253	324,706
Athletics	144,245	148,377
Amortization	10,267	10,267
Interest on long-term debt	105,252	119,185
Depreciation	<u>306,748</u>	<u>321,599</u>
Total Expenses	<u>8,251,073</u>	<u>7,789,719</u>

Decrease in net assets	(797,567)	(406,650)
Beginning net assets	<u>1,975,140</u>	<u>2,381,790</u>
Ending net assets	<u>\$ 1,177,573</u>	<u>\$ 1,975,140</u>

#### State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance
- Student Enrollment-Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- The District's non-homestead levy

#### Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Stephenson Area Public Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

## STEPHENSON AREA PUBLIC SCHOOLS

### Management's Discussion and Analysis

For the Year Ended June 30, 2006

#### Student Enrollment:

The District's student enrollment for the fall count of 2005-06 was 843.32 students. The District's enrollment decreased from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	843.32	(20)
2004-2005	863.20	(04)
2003-2004	867.54	(27)
2002-2003	894.57	(30)
2001-2002	925.00	2

Subsequent to year end June 30, 2006, preliminary student enrollments for 2006-2007 indicate that enrollments may decline by about 15 students from 2005-2006.

The District's student enrollment for state aid purposes is a three year average blended count. This does not reflect the actual head count at June 30, 2006.

#### Property Taxes levied for general operations (General Fund Non-Homestead Taxes)

The District levies 17.4994 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is re-adjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property revenue for the 2005-2006 fiscal year was \$1,090,859. The non-homestead tax levy increased by 7.00 percent over the prior year.

The following summarizes the District's non-homestead levy the past five years:

<u>Fiscal Year</u>	<u>Non-homestead Tax Levy</u>	<u>% Increase from Prior Yr.</u>
2005-2006	\$1,090,859	7.00%
2004-2005	1,019,476	4.52%
2003-2004	975,373	4.78%
2002-2003	930,921	3.09%
2001-2002	903,034	5.08%

Average increase last 5 years 4.894%.

#### Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: Homestead and non-homestead.

For the 2005-2006, the District's debt mileage levy was 3.186 mills that generated revenue of \$458,847.

## STEPHENSON AREA PUBLIC SCHOOLS

### Management's Discussion and Analysis

For the Year Ended June 30, 2006

#### Food Sales to Students & Adults (School Lunch Program)

The District's food and milk sales to students and adults increased from the prior school year by \$20,636 to \$147,496. The school lunch and milk prices were not increased during the year. Some of the increase in revenues can be attributed to closed campus for younger high school students (grades 7-9).

The total revenue from Food Service operations exceeded total expenditures for the year by \$31,929. The excess of revenues over expenditures resulted from higher student participation in the school lunch program and changes in salaries and benefits due to staff retirements.

#### General Fund Revenues Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Revenues Orig. Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Rev. Var. Actual &amp; Orig. Budget</u>	<u>Rev. Var. Actual &amp; Final Budget</u>
2001-2002	\$6,624,085	\$6,954,791	\$6,963,931	5.13%	1.13%
2002-2003	7,279,726	7,288,701	7,199,541	(1.10%)	(1.12%)
2003-2004	6,673,442	6,838,731	6,780,698	1.61%	(0.85%)
2004-2005	6,640,397	6,661,288	6,588,256	(0.78%)	(1.09%)
2005-2006	6,618,054	6,691,311	6,641,891	.36%	(0.74%)
Five year average over (under) budget				1.044%	(0.53%)

#### General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Expenditures Orig. Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Exp. Var. Actual &amp; Orig. Budget</u>	<u>Exp. Var. Actual &amp; Final Budget</u>
2001-2002	\$7,018,037	\$6,888,769	\$6,802,790	(3.07%)	(1.25%)
2002-2003	7,396,046	7,428,977	7,305,043	(1.23%)	(1.67%)
2003-2004	7,022,872	6,723,269	6,586,409	(1.21%)	(2.03%)
2004-2005	6,801,499	7,137,441	7,004,921	2.99%	(1.86%)
2005-2006	7,114,975	7,414,871	7,238,919	1.74%	(2.37%)
Five year average over (under) budget				(0.16%)	(1.84%)

#### Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

## STEPHENSON AREA PUBLIC SCHOOLS

### Management's Discussion and Analysis

For the Year Ended June 30, 2006

As a matter of practice, Stephenson Area Public Schools amends the budget periodically during the school year. For fiscal year June 30, 2006, the budget was amended in December 2005, and June 2006. The June 2006 budget amendment was the final budget for the fiscal year.

Total revenues and other financing sources:

Original budget	\$6,620,923	100.0%
Final budget	<u>6,691,311</u>	<u>101.1%</u>
Increase in budgeted revenues	<u>\$ 70,388</u>	<u>1.1%</u>

The final revenue budget reflects the following changes from the original budget:

- Local revenues increased almost \$57,000 from increased property tax assessments and interest revenue, Universal Service Fund refund and forestry sales.
- State revenues increased approximately \$7,000 due to miscellaneous grants, Early Fours program and Special Education state aid.
- Federal revenues increased approximately \$8,000 because of unknown Title program carryover allocations.

The District's final actual general fund revenues differed from the final budget by \$49,420, a variance of 74 percent from final budget.

- Major differences came from unspent money in Title programs of \$6,670 and Early Fours program of \$41,880. Both of these programs will become carryover money to be received and spent in the 2006-07 school year.

#### General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total expenditures and other financing uses:

Original budget	\$7,114,925	100.0%
Final budget	<u>7,414,071</u>	<u>104.2%</u>
Increase in budgeted expenditures	<u>\$ 299,146</u>	<u>4.2%</u>

Some of the significant budget changes for the year include:

- Salary and benefit changes due to changes in staffing for early fours program, and special education increased approximately \$95,000. Health insurance and retirement also increased almost \$67,000. The transportation department purchased a bus for \$61,790 and gasoline purchases increased \$25,000.

The District's final, actual general fund expenditures differed from final budget by \$175,152, a variance of 2.37 percent from final budget.

## **STEPHENSON AREA PUBLIC SCHOOLS**

Management's Discussion and Analysis  
For the Year Ended June 30, 2006

Some of the significant differences in expenditure activity for the year include:

- The Early Childhood and Title programs had not spent all the allocated money and will have a carryover of approximately \$49,000 to be used in the upcoming year to help offset the State allocation reductions.
- The Business Agriculture department had unspent forestry expenditures of \$70,000 that will be spent in the 2007-08 school year.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Stephenson Area Public Schools.

## **BASIC FINANCIAL STATEMENTS**

# STEPHENSON AREA PUBLIC SCHOOLS

## District-Wide Statement of Net Assets

As of June 30, 2006

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	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash	\$ 402,349
Receivables	14,263
Due from Other Governments	912,838
Inventory	19,256
Prepaid	31,115
Deferred Charges	39,590
Capital Assets, Net of Accumulated Depreciation	<u>3,391,413</u>
<b>TOTAL ASSETS</b>	<u><u>4,810,824</u></u>
<b>LIABILITIES:</b>	
Accounts Payable	284,145
Accrued Payroll Liabilities	201,404
Accrued Interest	18,109
Internal Balances	1,091
Deferred Revenue	47,603
Noncurrent Liabilities:	
Due Within One Year	578,844
Due In More Than One Year	<u>2,502,055</u>
<b>TOTAL LIABILITIES</b>	<u><u>3,633,251</u></u>
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	943,056
Restricted for Debt Service	73,445
Unrestricted	<u>161,072</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 1,177,573</u></u>

# STEPHENSON AREA PUBLIC SCHOOLS

District-Wide Statement of Activities

For the Year Ended June 30, 2006

Functions/Programs:	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Assets
				Total Governmental Activities
<b>GOVERNMENTAL ACTIVITIES:</b>				
Instruction	\$ 4,776,734	\$ 12,800	\$ 681,145	\$ (4,082,789)
Support Services	2,591,574	9,115	90,968	(2,491,491)
Food Services	316,253	147,496	207,981	39,224
Athletics	144,245	39,940	3,920	(100,385)
Amortization	10,267	-	-	(10,267)
Interest on Debt	105,253	-	-	(105,253)
Depreciation - Unallocated	306,747	-	-	(306,747)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 8,251,073</b>	<b>\$ 209,351</b>	<b>\$ 984,014</b>	<b>(7,057,708)</b>
<b>GENERAL REVENUES:</b>				
Property Taxes:				
General Operations				1,090,859
Debt Service				458,847
State of Michigan Aid, Unrestricted				4,681,577
Interest and Investment Earnings				20,306
Sale of Forestry Products				14,438
Loss on Sale of Capital Assets				(28,320)
Miscellaneous				22,434
<b>Total General Revenues</b>				<b>6,260,141</b>
<b>CHANGE IN NET ASSETS</b>				<b>(797,567)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>				<b>1,975,140</b>
<b>NET ASSETS - END OF YEAR</b>				<b>\$ 1,177,573</b>

See Accompanying Notes



# STEPHENSON AREA PUBLIC SCHOOLS

Balance Sheet  
Governmental Funds  
As of June 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash	\$ 324,020	\$ 78,329	\$ 402,349
Receivables	9,060	5,203	14,263
Due from Other Governments	910,156	2,682	912,838
Inventory	15,765	3,491	19,256
Prepaid	31,115	-	31,115
<b>TOTAL ASSETS</b>	<u>\$ 1,290,116</u>	<u>\$ 89,705</u>	<u>\$ 1,379,821</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>Liabilities:</b>			
Note Payable	\$ 60,699	\$ -	\$ 60,699
Accounts Payable	284,045	100	284,145
Accrued Payroll Liabilities	201,404	-	201,404
Due to Other Funds	-	1,091	1,091
Deferred Revenue	46,199	1,404	47,603
<b>Total Liabilities</b>	<u>592,347</u>	<u>2,595</u>	<u>594,942</u>
<b>FUND BALANCES:</b>			
Reserved for:			
Inventory and Prepaid	46,880	3,491	50,371
Debt Service	-	73,445	73,445
Unreserved:			
Designated	265,000	-	265,000
Undesignated	385,889	10,174	396,063
<b>Total Fund Balances</b>	<u>697,769</u>	<u>87,110</u>	<u>784,879</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,290,116</u>	<u>\$ 89,705</u>	<u>\$ 1,379,821</u>

**STEPHENSON AREA PUBLIC SCHOOLS**

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets  
As of June 30, 2006

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<b>Total Fund Balances - Governmental Funds</b>	\$ 784,879
<b>Total net assets reported for governmental activities in the statement of net assets are different from the amount reported above as total governmental funds fund balance because:</b>	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	3,391,413
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds.	
Bond Payable	(2,448,357)
Unused Vested Employee Benefits	(571,843)
Accrued interest on bonds is not due and payable in the current period and is not reported in the governmental funds.	(18,109)
Unamortized issuance cost of bonds is not due and payable in the current period and is not reported in the governmental funds.	<u>39,590</u>
<b>Total Net Assets - Governmental Activities</b>	<u><u>\$ 1,177,573</u></u>

**STEPHENSON AREA PUBLIC SCHOOLS**  
Statement of Revenues, Expenditures and Changes  
In Fund Balances - Governmental Funds  
For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Local Sources	\$ 1,157,587	\$ 652,833	\$ 1,810,420
State Sources	5,127,058	32,767	5,159,825
Federal Sources	316,773	180,369	497,142
<b>Total Revenues</b>	<u>6,601,418</u>	<u>865,969</u>	<u>7,467,387</u>
<b>EXPENDITURES:</b>			
Instruction	4,467,646	-	4,467,646
Support Services	2,591,574	460,498	3,052,072
Capital Outlay	79,202	7,295	86,497
Debt Service:			
Principal	-	353,554	353,554
Interest	-	111,223	111,223
<b>Total Expenditures</b>	<u>7,138,422</u>	<u>932,570</u>	<u>8,070,992</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(537,004)</u>	<u>(66,601)</u>	<u>(603,605)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of Assets	14,438	-	14,438
Operating Transfers In	26,035	100,497	126,532
Operating Transfers Out	(100,497)	(26,035)	(126,532)
<b>Total Other Financing Sources (Uses)</b>	<u>(60,024)</u>	<u>74,462</u>	<u>14,438</u>
<b>NET CHANGE IN FUND BALANCES</b>	(597,028)	7,861	(589,167)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>1,294,797</u>	<u>79,249</u>	<u>1,374,046</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 697,769</u></u>	<u><u>\$ 87,110</u></u>	<u><u>\$ 784,879</u></u>

**STEPHENSON AREA PUBLIC SCHOOLS**

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets  
As of June 30, 2006

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<b>Total Fund Balances - Governmental Funds</b>	\$ 784,879
<b>Total net assets reported for governmental activities in the statement of net assets are different from the amount reported above as total governmental funds fund balance because:</b>	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	3,391,413
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds.	
Bond Payable	(2,448,357)
Unused Vested Employee Benefits	(571,843)
Accrued interest on bonds is not due and payable in the current period and is not reported in the governmental funds.	(18,109)
Unamortized issuance cost of bonds is not due and payable in the current period and is not reported in the governmental funds.	<u>39,590</u>
<b>Total Net Assets - Governmental Activities</b>	<u><u>\$ 1,177,573</u></u>

**STEPHENSON AREA PUBLIC SCHOOLS**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
- Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2006

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**Net Change in Fund Balances - Total Governmental Funds** \$ (589,167)

***Amounts reported for governmental activities in the statement of activities are different because:***

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Capital Outlay	86,497
Depreciation Expense	(306,748)

Governmental funds report proceeds from the sale of capital assets as other financing sources; in the statement of activities, the net book value (cost less accumulated depreciation) is subtracted from the proceeds in determining the net gain or loss on the sale. (28,320)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt.) 353,554

Governmental funds report bond issuance cost as expenditures; in the statement of activities, these costs are allocated over the term of the bonds.

Amortization Expense	(10,267)
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. 5,972

Vested employee benefits are reported in the government funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.

Benefits Paid in Current Year	72,970
Benefits Earned in Current Year	<u>(382,058)</u>

**Change in Net Assets - Governmental Activities** \$ (797,567)

**STEPHENSON AREA PUBLIC SCHOOLS**

## Statement of Fiduciary Net Assets

## Fiduciary Funds

As of June 30, 2006

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	<b>Private-Purpose Trust</b>	<b>Agency Fund</b>
<b>ASSETS:</b>		
Cash	\$ -	\$ 38,320
Investments	157,337	30,200
Due from Other Funds		1,091
<b>Total Assets</b>	<u>157,337</u>	<u>69,611</u>
<b>LIABILITIES:</b>		
Accounts Payable	-	143
Due to Student Organizations	-	69,468
<b>Total Liabilities</b>	<u>-</u>	<u>69,611</u>
<b>NET ASSETS:</b>		
Reserved for Scholarships	<u>\$ 157,337</u>	<u>\$ -</u>

See Accompanying Notes

**STEPHENSON AREA PUBLIC SCHOOLS**  
Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2006

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	<b>Private-Purpose Trust</b>
<b>ADDITIONS:</b>	
Private Donations	\$ 9,919
Investment Income	3,898
<b>Total Additions</b>	<u>13,817</u>
<b>DEDUCTIONS:</b>	
Scholarships Awarded	<u>12,835</u>
<b>CHANGE IN NET ASSETS</b>	982
<b>NET ASSETS - BEGINNING</b>	<u>156,355</u>
<b>NET ASSETS - ENDING</b>	<u><u>\$ 157,337</u></u>

See Accompanying Notes

## **STEPHENSON AREA PUBLIC SCHOOLS**

### **Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2006**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

This summary of significant accounting policies of the Stephenson Area Public Schools (District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

#### **INTRODUCTION**

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below.

#### **NATURE OF OPERATIONS**

The District, governed by a seven-member elected school board, operates grades Kindergarten through 12 and is comprised of ten taxing districts.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity nor does it have any component units.

#### **DISTRICT-WIDE STATEMENTS**

The statement of net assets and the statement of activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients for goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### **FUND FINANCIAL STATEMENTS**

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as other governmental funds.



## **STEPHENSON AREA PUBLIC SCHOOLS**

### **Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2006**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

##### **FUND FINANCIAL STATEMENTS (Continued):**

The District reports the following major governmental fund:

General Fund – The General Fund is the operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in other funds.

The District reports a Private-Purpose Trust Fund. This fund reports a trust arrangement under which principal and income benefit a college scholarship program.

The District accounts for assets held as an agent for various student and parent organizations in an agency fund.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly, receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

##### **DEPOSITS AND INVESTMENTS**

The District's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Cash balances for individual funds are pooled unless maintained in segregated accounts.

## **STEPHENSON AREA PUBLIC SCHOOLS**

### **Notes to the Basic Financial Statements For the Year Ended June 30, 2006**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

##### **DEPOSITS AND INVESTMENTS (Continued):**

State statutes authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchases which mature not more than 270 days after the date of purchases, mutual funds and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

Donations to the District of securities or other property are considered trust funds and are invested as the donor specifies. In the absence of any specific directions, the District may invest the donated items in accordance with laws applicable to trust investments.

##### **PROPERTY TAXES**

The aggregate District tax levy is apportioned and certified by September 30 of the current fiscal year for collection to comprising municipalities based on the immediate past May 25 full or "equalized" taxable property values. As permitted by a collecting municipality's ordinance, taxes must be paid in full no later than February 14. The District must be paid by the collecting municipalities its proportionate share of tax collections received through the last day of the preceding month. On or before June 30, the County Treasurer makes full settlement to the District for any remaining balance. The County assumes all responsibility for delinquent real property taxes.

Property taxes are recognized as revenue in the period for which the taxes are levied. The 2005 tax levy is used to finance operations of the District's fiscal year ended June 30, 2006. All property taxes are considered due on February 14, when an enforceable lien is assessed against the property and the taxpayer is liable for the taxes.

##### **CAPITAL ASSETS**

Capital assets are reported at actual or estimated historical cost, based on appraisals conducted by an independent third-party professional appraisal firm. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar valued above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements are as follows: building, vehicles and equipment are capitalized using a capitalization threshold of \$5,000. All depreciable capital assets are depreciated on a straight-line basis with estimated useful lives for buildings and building improvements of 20-50 years, vehicles 5-10 years, and furniture and equipment of 5-20 years.

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over their estimated useful lives.

## **STEPHENSON AREA PUBLIC SCHOOLS**

### **Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2006**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

##### **INTERFUND ACTIVITY**

The interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon preparation of the district-wide financial statements. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the district-wide financial statements.

##### **DEFERRED REVENUE**

The District reports deferred revenue on its balance sheet and statement of net assets. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and statement of net assets and revenue is recognized.

##### **COMPENSATED ABSENCES**

The District's policy allows accumulated employee benefits for sick pay to vest. Employees are entitled to receive unused accumulated sick pay benefits upon retirement. An accrual for accumulated sick leave is included in the compensated absences liability at year end.

District employees participate in the Michigan Public School Employees' Retirement System. All contributions made by the District on behalf of its employees are reported as expenditures when paid.

Early retirement benefits are available to teachers and non-teachers meeting certain requirements. An accrual for early retirement benefits is included in the post employment benefits liability at year end.

##### **LONG-TERM DEBT**

The District records governmental fund long-term debt at face value as an other financing source and as a liability in the district-wide statement of net assets.

##### **CLAIMS AND JUDGMENTS**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with available expendable financial resources are recorded during the year as expenditures in the appropriate governmental fund types. If they are not liquidated with available expendable financial resources, a liability is recorded in the district wide statement of net assets. The related expenditure is recognized when the liability is liquidated. There were no significant claims or judgments at year end.

## STEPHENSON AREA PUBLIC SCHOOLS

### Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

##### **FUND EQUITY DESIGNATIONS**

###### *District-Wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

###### *Fund Financial Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

##### **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from these estimates.

#### **NOTE 2 - CASH AND INVESTMENTS:**

Michigan School Code Section 380.1223, authorizes the District to make deposits and invest in:

- a) Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable, at the option of the holder, upon not more than 90 days notice, or if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b) Certificates of deposit issued by a financial institution or share certificates of a state or federal credit union that is a financial institution.

## STEPHENSON AREA PUBLIC SCHOOLS

### Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

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#### NOTE 2 - CASH AND INVESTMENTS (Continued):

- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- e) United States government or federal agency obligation repurchase agreements.
- f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a school district.

The District has no formal investment policy. Donated stock may be held in any fund, in accordance with the wishes of the donor.

#### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for *investments* is the risk that, in the event of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The State statutes do not contain legal or policy requirements that would limit the exposure to custodial risks for deposits or investments.

The District maintains its cash accounts at three financial institutions. The balances, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$100,000 per interest bearing account and \$100,000 per non-interest bearing account per financial institution. Management acknowledges the possibility of risk in this arrangement. However, the size and longevity of the depository institutions minimizes such risk.

The following is a summary of cash deposits as of June 30, 2006:

Fully insured deposits	\$	252,584
Uncollateralized		223,981
Total	\$	<u>476,565</u>

**STEPHENSON AREA PUBLIC SCHOOLS**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

**NOTE 2 - CASH AND INVESTMENTS (Continued):****Custodial Credit Risk (Continued)**

Investments in the following investment types were held by the same counterparty that was used by the District to buy the investments:

<u>Investment Type</u>	<u>Reported Amount</u>
Corporate Stock	\$ 58,241
Mutual Bond Funds	21,242
	<u>\$ 79,483</u>

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum legal rating for the District's investment of \$21,242 in mutual bond funds is AA. As of July 27, 2006, this investment was rated AA- by Fitch, Aa3 by Moody's and AA- by Standard and Poor's.

**Concentration of Credit Risk**

The State statutes contain no limitations on the amount that can be invested in any one issuer. Mutual bond funds invested in Ameriprise, and several corporate stock investments individually represent 5% or more of the District's total investments, and 5% or more of the Scholarship Fund's total investments. These investments are donated, and the issuer is selected according to the wishes of the donor.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund- Student Activities	General Fund	\$ 1,091
<u>Interfund Transfers</u>		
<u>Transfer In:</u>	<u>Transfer Out:</u>	<u>Amount</u>
Athletics	General Fund	\$ 100,497
General Fund	Food Service	26,035
Other Governmental Funds		<u>\$ 126,532</u>

**STEPHENSON AREA PUBLIC SCHOOLS**

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

**NOTE 4 - CAPITAL ASSETS:**

Capital asset balances and activity for the year ended June 30, 2006 were as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Being Depreciated:				
Land Improvements	\$ 138,811	\$ -	\$ -	\$ 138,811
Building and Building Improvements	7,159,449	17,412	30,000	7,146,861
Buses and Other Vehicles	1,006,733	61,790	-	1,068,523
Furniture and Equipment	1,748,866	7,295	-	1,756,161
Total Capital Assets Being Depreciated	<u>10,053,859</u>	<u>86,497</u>	<u>30,000</u>	<u>10,110,356</u>
Less Accumulated Depreciation For:				
Land Improvements	121,878	2,523	-	124,401
Building and Building Improvements	4,650,375	128,413	1,681	4,777,107
Buses and Other Vehicles	652,313	83,440	-	735,753
Furniture and Equipment	989,310	92,372	-	1,081,682
Total Accumulated Depreciation	<u>6,413,876</u>	<u>306,748</u>	<u>1,681</u>	<u>6,718,943</u>
Total Capital Assets Being Depreciated in Net of Accumulated Depreciation	<u>\$ 3,639,983</u>	<u>\$ (220,251)</u>	<u>\$ 28,319</u>	<u>\$ 3,391,413</u>

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

**NOTE 5 - SHORT-TERM NOTE PAYABLE:**

The District utilized short-term borrowing from the Michigan Municipal Bond Authority revenue notes for cash flow purposes. The District borrowed \$455,000 at an interest rate of 2.87%. The balance of the short-term note payable at June 30, 2006 was \$60,699.

Total interest expense on the short-term note for the year ended June 30, 2006 totaled \$5,971.

**NOTE 6 - DEFERRED REVENUE:**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Taxes	\$ 46,199	\$ 1,404	\$ 47,603

**STEPHENSON AREA PUBLIC SCHOOLS**

## Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

**NOTE 7 - LONG-TERM OBLIGATIONS:**

The following is a summary of changes in long-term obligations of the District for the year ended June 30, 2006:

	<b>Balance 7/01/05</b>	<b>Additions</b>	<b>Reductions</b>	<b>6/30/06</b>	<b>Amount Due Within One Year</b>
Sports Complex-Bonds	\$ 1,415,000	\$ -	\$ 45,000	\$ 1,370,000	\$ 80,000
Refunding Bonds	1,340,000	-	305,000	1,035,000	280,000
School Improvement Bond	46,911	-	3,554	43,357	3,723
Compensated Absences	82,755	4,558	3,370	83,943	24,622
Post Employment Benefits	180,000	377,500	69,600	487,900	129,800
Total Governmental Activity Long-Term Liabilities	<u>\$ 3,064,666</u>	<u>\$ 382,058</u>	<u>\$ 426,524</u>	<u>\$ 3,020,200</u>	<u>\$ 518,145</u>

Total interest expense for the year ended June 30, 2006, was \$105,252.

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the District. The District's general obligation debt at June 30, 2006, is covered on the following individual issues:

	<b>Issue Dates</b>	<b>Interest Rate</b>	<b>Dates of Maturity</b>	<b>Balance 6/30/06</b>
Sports Complex-Bonds	5/1/00	4.5%-5%	5/1/12	\$ 1,370,000
Refunding Bonds	5/1/03	2.0%-3.5%	5/1/11	1,035,000
School Improvement Bond	5/15/98	4.76%	5/15/13	43,357
Total				<u>\$ 2,448,357</u>

Aggregate cash flow requirements for the retirement of long-term principal and interest as of June 30, 2006 follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 363,723	\$ 99,630	\$ 463,353
2008	378,901	86,723	465,624
2009	399,087	72,861	471,948
2010	414,281	56,605	470,886
2011	434,485	33,172	467,657
2012-2013	457,880	17,483	475,363
	<u>\$ 2,448,357</u>	<u>\$ 366,474</u>	<u>\$ 2,814,831</u>



**STEPHENSON AREA PUBLIC SCHOOLS**

## Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

**NOTE 8 - NET ASSETS/FUND BALANCES:**

Net assets reported on the district-wide statements of net assets at June 30, 2006 includes the following:

Invested in Capital Assets, Net of Related Debt:	
Capital Assets, Net of Accumulated Depreciation	\$ 3,391,413
Less: Related Long-term Debt Outstanding	<u>2,448,357</u>
Total Invested in Capital Assets	943,056
Restricted for Debt Service	73,445
Unrestricted	<u>161,072</u>
Total Net Assets	<u>\$ 1,177,573</u>

Fund balances reported in the governmental funds balance sheet at June 30, 2006 are further classified as follows:

Reserved:	
Inventory and Prepaid	\$ 50,371
Debt Service	<u>73,445</u>
Total Reserved	<u>123,816</u>
Unreserved Designated:	
Compensated Absences/Post Employment Benefits	200,000
Forestry	<u>65,000</u>
Total Unrestricted Designated	<u>265,000</u>
Unreserved Undesignated	<u>396,063</u>
Total Governmental Funds Fund Balance	<u>\$ 784,879</u>

**NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENTS BENEFITS:**

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District.

The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

## **STEPHENSON AREA PUBLIC SCHOOLS**

### **Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2006**

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#### **NOTE 9 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENTS BENEFITS (Continued):**

The pension benefit rate totals 15.5 percent for the fiscal year ended June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2006, 2005 and 2004 were \$652,185, \$603,781, and \$517,567 respectively.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

#### **NOTE 10 - POST-EMPLOYMENT BENEFITS:**

The District has offered employees early retirement. The accumulated unpaid early retirement liability at year-end June 30, 2006 was \$487,900. There were 19 employees who received early retirement pay. The amount paid during the year ended June 30, 2006 was \$69,600.

#### **NOTE 11 - RISK MANAGEMENT:**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for health claims and participates in the Set/Seg (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# STEPHENSON AREA PUBLIC SCHOOLS

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
<b>REVENUES:</b>				
Local Sources	\$ 1,113,756	\$ 1,156,238	\$ 1,157,587	\$ 1,349
State Sources	5,164,817	5,168,985	5,127,058	(41,927)
Federal Sources	317,350	325,615	316,773	(8,842)
<b>Total Revenues</b>	<u>6,595,923</u>	<u>6,650,838</u>	<u>6,601,418</u>	<u>(49,420)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Elementary	1,799,684	1,912,931	1,909,264	3,667
Secondary	1,623,872	1,559,571	1,552,709	6,862
Early Fours	123,976	145,710	107,960	37,750
Special Education	378,329	425,726	416,619	9,107
Added Needs	306,336	301,614	301,322	292
Vocational Education	171,404	180,060	179,773	287
Support Service:				
Pupil	118,949	117,650	125,230	(7,580)
Instructional Staff	123,328	54,161	50,242	3,919
General Administration	1,030,354	966,344	951,313	15,031
Operation and Maintenance	799,943	897,158	880,865	16,293
Transportation	415,971	477,002	464,023	12,979
Improvement of Instruction	127,581	119,344	117,151	2,193
Community Services	4,000	3,156	2,751	405
Capital Outlay	66,698	153,147	79,202	73,945
<b>Total Expenditures</b>	<u>7,090,425</u>	<u>7,313,574</u>	<u>7,138,422</u>	<u>175,152</u>
<b>DEFICIENCY OF REVENUE</b>				
<b>UNDER EXPENDITURES</b>	<u>(494,502)</u>	<u>(662,736)</u>	<u>(537,004)</u>	<u>125,732</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Assets	-	14,438	14,438	-
Operating Transfer in	25,000	26,035	26,035	-
Operating Transfer out	(24,500)	(100,497)	(100,497)	-
<b>Total Other Financial Sources (Uses)</b>	<u>500</u>	<u>(60,024)</u>	<u>(60,024)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(494,002)</u>	<u>(722,760)</u>	<u>(597,028)</u>	<u>125,732</u>
<b>FUND BALANCES - BEGINNING</b>	<u>1,294,797</u>	<u>1,294,797</u>	<u>1,294,797</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 800,795</u>	<u>\$ 572,037</u>	<u>\$ 697,769</u>	<u>\$ 125,732</u>

See notes to required supplementary information

**STEPHENSON AREA PUBLIC SCHOOLS**  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2006

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**BUDGETS AND BUDGETARY ACCOUNTING:**

Operating budgets are adopted each fiscal year for all governmental funds. Reported budget amounts are as originally adopted or as amended by School Board resolution.

The District follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

- a. Based upon requests from district staff, district administration recommends budget proposals to the school board.
- b. The school board prepares a proposed budget including proposed expenditures and the means of financing them for the July 1 through June 30 fiscal year.
- c. Pursuant to the public budget hearing, the school board may make alterations to the proposed budget.
- d. Once the school board (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposes of such appropriations, unless authorized by a 2/3 vote of the entire school board.
- e. Appropriations lapse at year-end, unless authorized as a carryover by the school board. The portion of fund balance representing carryover appropriations is reported as reported a reserved fund balance

**BASIS OF ACCOUNTING:**

The budget is prepared on the same modified accrual basis of accounting as applied to the governmental funds in the basic financial statements.

## **SUPPLEMENTARY INFORMATION**

# STEPHENSON AREA PUBLIC SCHOOLS

## Detailed Budgetary Comparison Schedule

### General Fund

For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual Amounts	
REVENUES:				
Local:				
Property Tax	\$ 1,078,956	\$ 1,093,098	\$ 1,090,859	\$ (2,239)
Interest on Investments	5,000	18,700	17,676	(1,024)
Tuition	14,400	12,800	12,800	-
Rental	4,400	4,400	4,480	80
Other	11,000	27,240	31,772	4,532
Total Local	1,113,756	1,156,238	1,157,587	1,349
State:				
State School Aid	4,762,721	4,676,421	4,676,421	-
State School Restricted	177,041	168,861	168,814	(47)
State School Special Ed	114,455	156,321	156,321	-
SID -				-
Early Childhood	105,600	151,460	109,580	(41,880)
Other	5,000	15,922	15,922	-
Total State	5,164,817	5,168,985	5,127,058	(41,927)
Federal:				
Title I	229,805	225,559	225,994	435
Title V	7,375	7,582	1,013	(6,569)
Title II	77,370	89,898	87,696	(2,202)
SID - Drug Free	2,800	2,576	2,070	(506)
Total Federal	317,350	325,615	316,773	(8,842)
TOTAL REVENUES	\$ 6,595,923	\$ 6,650,838	\$ 6,601,418	\$ (49,420)

**STEPHENSON AREA PUBLIC SCHOOLS**  
Detailed Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual Amounts	
EXPENDITURES:				
Instructional:				
Elementary:				
Salaries - Profess. Ed.	\$ 1,143,742	\$ 1,154,143	\$ 1,152,779	\$ 1,364
Salaries - Temporary	21,500	39,775	39,637	138
Benefits	581,884	677,792	676,833	959
Profess. and Tech. Service	3,728	3,480	3,480	-
Travel Expenses	1,310	1,721	1,623	98
Repairs and Maintenance	9,000	5,575	5,424	151
Supplies/Materials	38,220	27,645	26,689	956
Miscellaneous Expenses	300	2,800	2,800	(0)
Total Elementary	1,799,684	1,912,931	1,909,264	3,667
Secondary:				
Salaries - Profess. Ed.	1,002,095	940,180	938,951	1,229
Salaries - Temporary	20,000	22,600	22,540	60
Benefits	519,833	509,432	507,701	1,731
Travel Expenses	2,910	2,270	1,890	380
Tuition	5,000	5,800	5,768	32
Repairs and Maintenance	10,900	12,000	12,661	(661)
Supplies/Materials	49,309	48,239	46,849	1,390
Textbooks	12,000	17,600	15,036	2,564
Miscellaneous Expenses	1,825	1,450	1,311	139
Total Secondary	1,623,872	1,559,571	1,552,709	6,862
Early Fours:				
Salaries - Profess. Ed.	44,731	57,093	46,388	10,705
Salaries - Operation and Ser.	8,257	15,904	13,825	2,079
Salaries - Temporary	1,835	2,300	1,558	742
Benefits	32,330	47,944	35,368	12,576
Profess. And Tech. Service	3,684	7,557	7,240	317
Travel Expenses	1,000	1,009	278	731
Repairs and Maintenance	-	286	286	-
Supplies/Materials	30,839	12,317	2,965	9,352
Miscellaneous Expenses	1,300	1,300	50	1,250
Total Early Fours	123,976	145,710	107,960	37,750



**STEPHENSON AREA PUBLIC SCHOOLS**  
Detailed Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Special Education:</b>				
Salaries - Profess. Ed.	168,154	176,008	176,008	-
Salaries - Oper. and Service	38,871	60,930	55,151	5,779
Salaries - Temporary	15,750	16,655	16,640	15
Benefits	146,566	161,995	159,201	2,794
Profess. and Tech. Service	450	1,850	1,825	26
Travel Expenses	4,250	1,700	1,496	204
Miscellaneous	4,288	6,588	6,298	290
<b>Total Special Education</b>	<b>378,329</b>	<b>425,726</b>	<b>416,619</b>	<b>9,107</b>
<b>Added Needs:</b>				
Salaries - Profess. Ed.	131,820	143,666	143,665	1
Salaries - Oper. and Service	58,867	45,322	45,321	1
Salaries - Temporary	8,090	5,354	5,354	0
Benefits	98,909	99,699	99,479	220
Travel Expenses	-	181	181	-
Supplies/Materials	8,650	7,392	7,322	70
<b>Total Added Needs</b>	<b>306,336</b>	<b>301,614</b>	<b>301,322</b>	<b>292</b>
<b>Vocational Education:</b>				
Salaries - Profess. Ed.	105,392	110,808	110,784	24
Salaries - Temporary	5,000	3,250	3,220	30
Benefits	45,537	49,502	49,352	150
Travel Expenses	9,200	10,100	9,701	399
Repairs and Maint.	1,275	-	-	-
Supplies/Materials	5,000	6,400	6,716	(316)
<b>Total Vocational Education</b>	<b>171,404</b>	<b>180,060</b>	<b>179,773</b>	<b>287</b>
<b>TOTAL INSTRUCTIONAL</b>	<b>4,403,601</b>	<b>4,525,612</b>	<b>4,467,646</b>	<b>57,967</b>
<b>Support Services:</b>				
<b>Pupil:</b>				
<b>Guidance:</b>				
Salaries - Profess. Ed.	33,134	29,794	29,794	-
Salaries - Temporary	200	200	-	200
Benefits	14,567	20,025	19,925	100
Profess. and Tech. Service	2,260	260	1,341	(1,081)
Travel	104	104	-	104
Supplies/Materials	2,130	1,000	818	182
<b>Total Guidance</b>	<b>52,395</b>	<b>51,383</b>	<b>51,877</b>	<b>(494)</b>

**STEPHENSON AREA PUBLIC SCHOOLS**  
Detailed Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual Amounts</b>	
<b>Health:</b>				
Salaries - Profess. Other	-	-	5,664	(5,664)
Benefits	-	-	1,487	(1,487)
Profess. and Tech. Service	6,174	1,940	1,934	6
<b>Total Health</b>	<b>6,174</b>	<b>1,940</b>	<b>9,085</b>	<b>(7,145)</b>
<b>Pupil Services:</b>				
Salaries - Profess. Other	38,000	38,800	38,785	15
Benefits	21,580	23,427	23,426	1
Travel	300	100	99	1
Supplies/Materials	500	2,000	1,958	42
<b>Total Pupil Services</b>	<b>60,380</b>	<b>64,327</b>	<b>64,268</b>	<b>44</b>
<b>Total Support Services - Pupil</b>	<b>118,949</b>	<b>117,650</b>	<b>125,230</b>	<b>(7,595)</b>
<b>Instructional Staff:</b>				
<b>Improvement of Instruction:</b>				
Profess. and Tech. Service	7,375	3,646	1,014	2,632
Travel Expenses	56,460	17,040	17,287	(247)
<b>Total Improvement of Instruction</b>	<b>63,835</b>	<b>20,686</b>	<b>18,301</b>	<b>2,385</b>
<b>Library:</b>				
Salaries - Oper. And Service	11,486	10,003	9,980	23
Salaries - Temporary	400	2,800	2,724	76
Benefits	17,401	16,062	14,822	1,240
Library Books	2,100	1,400	1,373	27
Periodicals	1,700	800	707	93
Supplies/Materials	1,356	2,410	2,335	75
<b>Total Library</b>	<b>34,443</b>	<b>33,475</b>	<b>31,941</b>	<b>1,534</b>
<b>Technology Instructional:</b>				
Salaries - Profess. Ed.	25,050	-	-	-
<b>Total Technology Instructional</b>	<b>25,050</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Instructional Staff</b>	<b>123,328</b>	<b>54,161</b>	<b>50,242</b>	<b>3,919</b>

**STEPHENSON AREA PUBLIC SCHOOLS**  
Detailed Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>General Administration:</b>				
<b>Board of Education:</b>				
Salaries - Administration	4,200	4,200	4,150	50
Benefits	6,011	321	318	3
Profess. and Tech. Service	18,352	58,050	56,199	1,851
Travel Expenses	2,300	300	300	-
Salaries Election	6,000	6,500	3,574	2,926
Supplies/Materials	1,000	-	-	-
Miscellaneous Expenses	2,580	2,980	2,948	32
<b>Total Board of Education</b>	<b>40,443</b>	<b>72,351</b>	<b>67,490</b>	<b>4,861</b>
<b>Administration:</b>				
Salaries - Administration	94,835	96,032	96,032	0
Salaries - Operation and Ser.	66,656	69,670	69,668	2
Salaries - Temporary	-	72	72	-
Benefits	80,791	85,079	85,837	(758)
Profess. and Tech. Service	4,885	16,065	18,708	(2,643)
Travel Expenses	826	1,650	1,783	(133)
Communications	8,400	9,025	7,783	1,242
Advertising	500	500	953	(453)
Printing/Binding	600	600	-	600
Repairs and Maintenance	1,400	2,465	2,765	(300)
Supplies/Materials	6,200	9,700	8,272	1,428
Miscellaneous Expenses	6,575	2,755	3,051	(296)
<b>Total Administration</b>	<b>271,668</b>	<b>293,613</b>	<b>294,924</b>	<b>(1,311)</b>
<b>Principal:</b>				
Salaries - Administration	278,674	179,936	179,935	1
Salaries - Operation and Ser.	97,484	94,010	94,219	(209)
Salaries - Temporary	5,650	7,400	6,876	524
Benefits	188,467	142,750	142,281	469
Travel Expenses	1,650	2,750	2,289	461
Communications	15,190	19,215	17,777	1,438
Printing/Binding	800	800	-	800
Repairs and Maintenance	11,200	13,075	12,924	151
Supplies/Materials	7,645	7,850	6,495	1,355
Miscellaneous	-	1,150	1,150	-
<b>Total Principal</b>	<b>606,760</b>	<b>468,936</b>	<b>463,945</b>	<b>4,990</b>
<b>Fiscal Service:</b>				
Salaries - Profess. Business	54,457	56,892	56,892	-
Benefits	28,068	30,779	30,601	178
Supplies/Materials	4,000	7,000	6,759	241
Miscellaneous	4,000	3,500	1,513	1,987
<b>Total Fiscal Service</b>	<b>90,525</b>	<b>98,171</b>	<b>95,765</b>	<b>2,406</b>

**STEPHENSON AREA PUBLIC SCHOOLS**  
Detailed Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual Amounts</b>	
<b>Other Business Service:</b>				
Insurance and Bond Premiums	10,958	15,148	14,975	173
Interest	10,000	7,500	7,947	(447)
Tax Charge Backs	-	10,625	6,268	4,357
<b>Total Other Bus. Service</b>	<b>20,958</b>	<b>33,273</b>	<b>29,189</b>	<b>4,084</b>
<b>Total General Administration</b>	<b>1,030,354</b>	<b>966,344</b>	<b>951,313</b>	<b>15,031</b>
<b>Operation and Maintenance:</b>				
Salaries - Operation and Ser.	265,522	353,913	353,541	372
Salaries - Temporary	4,750	5,375	5,267	108
Benefits	187,172	206,682	214,831	(8,149)
Profess. and Tech. Service	540	-	67	(67)
Travel Expense	-	1,500	1,321	179
Utility Services	193,123	194,323	186,678	7,645
Purchased Services	28,645	24,695	21,236	3,459
Insurance and Bond Premiums	33,808	35,812	35,394	418
Repairs and Maintenance	64,665	51,615	42,852	8,763
Supplies/Materials	20,518	22,043	18,651	3,392
Miscellaneous	1,200	1,200	1,028	172
<b>Total Operation and Maintenance</b>	<b>799,943</b>	<b>897,158</b>	<b>880,865</b>	<b>16,293</b>
<b>Pupil Transportation:</b>				
Salaries - Operation and Ser.	178,443	216,965	217,004	(39)
Salaries - Temporary	10,000	8,800	8,733	67
Salaries - Overtime	13,500	3,800	3,653	147
Benefits	117,569	107,702	109,534	(1,832)
Profess and Tech. Service	3,400	3,400	2,787	613
Travel Expenses	1,226	900	385	515
Communications	4,942	10,442	9,717	725
Advertising	265	265	18	247
Purchased Services	3,000	3,500	2,550	950
Insurance and Bond Premiums	11,300	11,300	11,140	160
Repairs & Maintenance	16,825	28,825	23,078	5,747
Transportation Supplies	54,501	80,003	74,327	5,676
Supplies/Materials	500	600	516	84
Miscellaneous	500	500	582	(82)
<b>Total Pupil Transportation</b>	<b>415,971</b>	<b>477,002</b>	<b>464,023</b>	<b>12,979</b>

**STEPHENSON AREA PUBLIC SCHOOLS**  
Detailed Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual Amounts</b>	
<b>Improvement of Instruction:</b>				
Salaries - Technical	33,101	34,327	34,327	-
Benefits	11,303	11,759	11,271	488
Profess and Tech. Service	117	1,850	-	-
Travel Expenses	50	50	-	50
Repairs and Maintenance	48,600	40,800	42,556	(1,756)
Supplies/Materials	34,410	30,558	28,997	1,561
<b>Total Improvement of Instruction</b>	<b>127,581</b>	<b>119,344</b>	<b>117,151</b>	<b>343</b>
<b>Community Service:</b>				
Travel Expenses	-	250	222	-
Supplies and Materials	4,000	2,906	2,529	377
<b>Total Community Service</b>	<b>4,000</b>	<b>3,156</b>	<b>2,751</b>	<b>377</b>
<b>TOTAL SUPPORT SERVICES</b>	<b>2,620,126</b>	<b>2,634,815</b>	<b>2,591,574</b>	<b>41,347</b>
<b>Capital Outlay:</b>				
Early Fours	3,724	3,724	-	3,724
Vocational Education	55,783	70,221	-	70,221
Operation and Maintenance	-	17,412	17,412	-
Pupil Transportation	7,191	61,790	61,790	-
<b>TOTAL CAPITAL OUTLAY</b>	<b>66,698</b>	<b>153,147</b>	<b>79,202</b>	<b>73,945</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 7,090,425</b>	<b>\$ 7,313,574</b>	<b>\$ 7,138,422</b>	<b>\$ 173,259</b>

**STEPHENSON AREA PUBLIC SCHOOLS**

Combining Balance Sheet  
Nonmajor Governmental Funds  
As of June 30, 2006

	<b>Special Revenue</b>		<b>Debt Service</b>		
	<b>Food</b>		<b>Sports</b>	<b>2003</b>	
	<b>Service</b>	<b>Athletics</b>	<b>Complex</b>	<b>Refunding</b>	<b>Total</b>
<b>ASSETS:</b>					
Cash	\$ 3,799	\$ 1,085	\$ 41,387	\$ 32,058	\$ 78,329
Receivables	425	3,374	87	1,317	5,203
Due from Other Governments	2,682	-	-	-	2,682
Inventory	3,491	-	-	-	3,491
<b>TOTAL ASSETS</b>	<b>\$ 10,397</b>	<b>\$ 4,459</b>	<b>\$ 41,474</b>	<b>\$ 33,375</b>	<b>\$ 89,705</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Accounts Payable	\$ 100	\$ -	\$ -	\$ -	\$ 100
Due to Other Funds	-	1,091	-	-	1,091
Deferred Revenue	-	-	87	1,317	1,404
<b>Total Liabilities</b>	<b>100</b>	<b>1,091</b>	<b>87</b>	<b>1,317</b>	<b>2,595</b>
<b>FUND BALANCES:</b>					
Reserved	3,491	-	41,387	32,058	76,936
Unreserved	6,806	3,368	-	-	10,174
<b>Total Fund Balances</b>	<b>10,297</b>	<b>3,368</b>	<b>41,387</b>	<b>32,058</b>	<b>87,110</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 10,397</b>	<b>\$ 4,459</b>	<b>\$ 41,474</b>	<b>\$ 33,375</b>	<b>\$ 89,705</b>

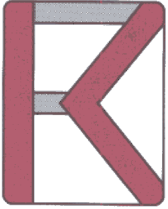
# STEPHENSON AREA PUBLIC SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2006

	Special Revenue		Debt Service			
	Food Service	Athletics	Sports Complex	2003 Refunding	School Improvement	Total
<b>REVENUES:</b>						
Local Sources	\$ 147,497	\$ 43,859	\$ 115,111	\$ 346,366	\$ -	\$ 652,833
State Sources	27,611	-	-	-	5,156	32,767
Federal Sources	180,369	-	-	-	-	180,369
<b>Total Revenues</b>	<u>355,477</u>	<u>43,859</u>	<u>115,111</u>	<u>346,366</u>	<u>5,156</u>	<u>865,969</u>
<b>EXPENDITURES:</b>						
Support Service	316,253	144,245	-	-	-	460,498
Capital Outlay	7,295	-	-	-	-	7,295
Debt Service:						
Principal	-	-	45,000	305,000	3,554	353,554
Interest	-	-	69,588	40,033	1,602	111,223
<b>Total Expenditures</b>	<u>323,548</u>	<u>144,245</u>	<u>114,588</u>	<u>345,033</u>	<u>5,156</u>	<u>932,570</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>31,929</u>	<u>(100,386)</u>	<u>523</u>	<u>1,333</u>	<u>-</u>	<u>(66,601)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers In	-	100,497	-	-	-	100,497
Transfers Out	(26,035)	-	-	-	-	(26,035)
<b>Total Other Financial Sources (Uses)</b>	<u>(26,035)</u>	<u>100,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,462</u>
<b>NET CHANGE IN FUND BALANCES</b>	5,894	111	523	1,333	-	7,861
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>4,403</u>	<u>3,257</u>	<u>40,864</u>	<u>30,725</u>	<u>-</u>	<u>79,249</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 10,297</u>	<u>\$ 3,368</u>	<u>\$ 41,387</u>	<u>\$ 32,058</u>	<u>\$ -</u>	<u>\$ 87,110</u>

## **ADDITIONAL REPORT**





# KERBER, ROSE & ASSOCIATES, S.C.

*Certified Public Accountants*

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Stephenson Area Public Schools  
Stephenson, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Stephenson Area Public Schools, Stephenson, Michigan (District), as of and for the year ended June 30, 2006, which collectively comprise the District's financial statements and have issued our report thereon dated July 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Stephenson Area Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Stephenson Area Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education  
Stephenson Area Public Schools

This report is intended solely for the information and use of the District's Board, management, Michigan Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kerber, Rose & Associates, S.C." in a cursive script.

**KERBER, ROSE & ASSOCIATES, S. C.**  
**Certified Public Accountants**  
July 29, 2006

**STEPHENSON AREA PUBLIC SCHOOLS**

**Audit of Federal Awards**

**June 30, 2006**

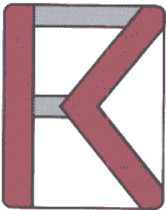
# STEPHENSON AREA PUBLIC SCHOOLS

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June 30, 2006

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Stephenson Area Public Schools  
Stephenson, Michigan

### Compliance

We have audited the compliance of Stephenson Area Public Schools, Stephenson, Michigan, (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education  
Stephenson Area Public Schools

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the District's Board, management, Michigan Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Kerber, Rose & Associates, S.C."

**KERBER, ROSE & ASSOCIATES, S.C.**

**Certified Public Accountants**

January 11, 2007

**Stephenson Area Public Schools  
Schedule of Expenditures of Federal Awards  
June 30, 2006**

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<b>Federal Grantor/Pass-Through Grantor/Program Title Grant Number</b>	<b>Federal CFDA Number</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>	
<b>Passed through Michigan Department of Education:</b>	
<b>Title I Part A</b>	
051530 0405	84.010
061530 0506	84.010
<b>Total Title I Part A</b>	
<b>Title II Part A</b>	
040520 0405	84.367
050520 0405	84.367
050520 0506	84.367
060520 0506	84.367
<b>Total Title II Part A</b>	
<b>Title II Part D</b>	
054290 0405	84.318
064290 0506	84.318
<b>Total Title II Part D</b>	
<b>Title V Part A</b>	
050250 0405	84.298
060250 0506	84.298
<b>Total Title V Part A</b>	
<b>Total Passed Through Michigan Department of Education</b>	
<b>Passed Through Intermediate School District:</b>	
<b>Safe and Drug Free Schools</b>	84.186
<b>Total Passed Through Intermediate School District</b>	
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>	

<b>Approved Award</b>	<b>Accrued Revenue 7/1/05</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued Revenue 6/30/06</b>
\$ 229,805	\$ 435	\$ 28,877	\$ 29,312	\$ -
196,682	-	196,682	196,682	-
<u>426,487</u>	<u>435</u>	<u>225,559</u>	<u>225,994</u>	<u>-</u>
14,550	(1,375)	1,375	-	-
68,999	900	7,987	8,887	-
2,531	-	2,531	2,531	-
70,559	-	70,559	70,559	-
<u>156,639</u>	<u>(475)</u>	<u>82,452</u>	<u>81,977</u>	<u>-</u>
5,840	-	4,077	4,077	-
3,369	-	2,369	1,642	727
<u>9,209</u>	<u>-</u>	<u>6,446</u>	<u>5,719</u>	<u>727</u>
7,375	(3,936)	3,936	-	-
3,646	-	1,013	1,013	-
<u>11,021</u>	<u>(3,936)</u>	<u>4,949</u>	<u>1,013</u>	<u>-</u>
<u>603,356</u>	<u>(3,976)</u>	<u>319,406</u>	<u>314,703</u>	<u>727</u>
<u>2,070</u>	<u>-</u>	<u>2,070</u>	<u>2,070</u>	<u>-</u>
<u>2,070</u>	<u>-</u>	<u>2,070</u>	<u>2,070</u>	<u>-</u>
<u>\$ 605,426</u>	<u>\$ (3,976)</u>	<u>\$ 321,476</u>	<u>\$ 316,773</u>	<u>\$ 727</u>



**Stephenson Area Public Schools  
Schedule of Expenditures of Federal Awards  
June 30, 2006**

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<b>Federal Grantor/Pass-Through Grantor/Program Title Grant Number</b>	<b>Federal CFDA Number</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>	
<b>Passed through Michigan Department of Education:</b>	
051950 Section 4 All Lunch	10.555
061950 Section 4 All Lunch	10.555
051960 Section II Free and Reduced	10.555
061960 Section II Free and Reduced	10.555
<b>Total</b>	
051970 National School Lunch Bkf	10.553
061970 National School Lunch Bkf	10.553
<b>Total</b>	
Entitlement Commodities	10.550
Bonus Commodities	10.550
<b>Total</b>	
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>	
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>	

<b>Approved Award</b>	<b>Accrued Revenue 7/1/05</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued Revenue 6/30/06</b>
\$ 2,975	\$ -	\$ 2,975	\$ 2,975	\$ -
17,510	-	17,510	17,510	-
15,837	-	15,837	15,837	-
89,637	-	89,637	89,637	-
<u>125,959</u>	<u>-</u>	<u>125,959</u>	<u>125,959</u>	<u>-</u>
4,601	-	4,601	4,601	-
30,614	-	30,614	30,614	-
<u>35,215</u>	<u>-</u>	<u>35,215</u>	<u>35,215</u>	<u>-</u>
17,169	-	17,169	17,169	-
2,026	-	2,026	2,026	-
<u>19,195</u>	<u>-</u>	<u>19,195</u>	<u>19,195</u>	<u>-</u>
180,368	-	180,369	180,369	-
<u>\$ 785,794</u>	<u>\$ (3,976)</u>	<u>\$ 501,845</u>	<u>\$ 497,142</u>	<u>\$ 727</u>

**STEPHENSON AREA PUBLIC SCHOOLS**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

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**Section I – Summary of Auditors' Results**

**Financial Statements**

Unqualified opinion issued.

No reportable conditions or material weaknesses were disclosed.

No noncompliances were disclosed.

**Single Audit Items**

No reportable conditions or material weaknesses in internal controls over major programs were disclosed.

Unqualified opinion issued on compliance for major programs.

Major Program – 84.010 – Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.

Stephenson Area Public Schools is a low risk auditee.

**Section II – Findings Relating to the Financial Statements Audit in Accordance with Government Auditing Standards**

No illegal acts involving laws and regulations.

No noncompliance with provisions in contracts and grant agreements.

No reportable conditions or material weaknesses were disclosed.

**Section III – Findings and Questioned Costs for Federal Awards Using Section 510(a)**

There were no Single Audit Findings and no Questioned Costs.

**STEPHENSON AREA PUBLIC SCHOOLS**  
Schedule of Prior Year Audit Findings and Corrective Action Plan  
For the Year Ended June 30, 2006

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**Prior Year Findings**

None

**Corrective Action Plan**

None required





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July 29, 2006

Board of Education  
Stephenson Area Public Schools  
Stephenson, Michigan

In planning and performing our audit of the financial statements of the Stephenson Area Public Schools (District) for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

We became aware of several matters that are opportunities for strengthening internal controls and operating efficiency that we have detailed below. We previously reported on the District's internal control in our report dated July 29, 2006. This letter does not affect our report dated July 29, 2006, on the financial statements of the District.

## Separation of Duties

The size of the District's office staff has prevented the separation of functions necessary to assure an adequate internal control structure. It is not practical to hire additional staff solely for the purpose of separation of duties. However, the Board should continue to be aware of this condition.

## Fund Balance Designations

Designations of fund balances should be reviewed at least annually by the Finance Committee and Board of Education, to ensure the designated amounts accurately reflect the intentions of the Board with regard to use of reserves for current and future operations and projects.

The undesignated portion of the general fund's fund balance is presently only 5% of the operating budget, as compared to the recommended benchmark of 15%. The food service fund balance is less than 2% of the related operating budget. The board should take appropriate measures to stop the erosion of these fund balances through balanced budgets.

## Journal Entries

Journal entries should be reviewed by the superintendent or treasurer on a monthly basis, to ensure that adjustments are accurate in amount and classification, and that the business purpose of the adjustment is valid.

### Investment Policy

The District should have a formal investment policy, which should be reviewed annually to be sure the District's surplus cash is earning the highest possible interest without undue risk. The rating for Ameriprise has been recently downgraded. The District's investments with Ameriprise declined in market value by 4.34%. Investments in CD's increased by only 0.4%.

Investments in common stock are not allowed under State statutes unless stipulated by the donor. Scholarship investments and other fiduciary fund investments should follow State statutes unless the donor specifies otherwise.

Certain securities could not be located. For all investments in stocks, certificates of ownership should be kept in the business office safe or in a safe deposit box.

### Athletic Event Receipts

Volunteers selling tickets for athletic events should count the cash and checks received and prepare a transmittal sheet showing the total collected. It would be desirable to have two volunteers count the cash independent of one another, and each initial the transmittal with his or her individual count. There may be a need for additional controls over ticket sales if it appears the total receipts are less than reasonable.

### Budget Amendments

When budget amendments are necessary, the reasons should be clearly explained in a report to the finance committee. Such a practice ensures budgetary controls remain intact, which is vital since budgetary oversight is the most important fiscal management tool available to the finance committee and the Board of Education. The report should become a part of the minutes of the finance committee meeting at which the amendments are presented.

### Capital Asset Valuation

Land should be included in the District's capital assets. Although land is not depreciated, it is a valuable asset of the District and should be included on the district-wide financial statements.

### General Ledger Balance Sheet Accounts

Single cash and investment accounts at financial institutions have been split into more than one general ledger account. Balance sheet accounts should be structured to relate one-to-one to related accounts at financial institutions.

### Conclusion

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with management, and will be pleased to discuss them in further detail or assist with implementation.

We thank you for allowing us to be of service to the Stephenson Area Public Schools. We received complete cooperation from all staff members during the audit. The Business Manager and administrative staff are very competent and conscientious in performing the necessary functions to ensure the fiscal well-being of the District. They are doing an excellent job to protect the integrity of the

District's financial records and to make certain of the accountability of all District employees in protecting the District's assets.

Sincerely,

KERBER, ROSE & ASSOCIATES, S.C.

A handwritten signature in blue ink, appearing to read "Bradley R. Walters". The signature is fluid and cursive, with the first name "Bradley" and last name "Walters" clearly distinguishable.

Bradley R. Walters, CPA